THE JOURNAL

OF

POLITICAL ECONOMY

VOLUME 18 *FEBRUARY—1910* NUMBER 2

THE RATIONALITY OF ECONOMIC ACTIVITY. I

Few economists have regarded the study of psychology as a necessary part of the equipment for their work. Certain psychological notions, it is true, have always figured among the assumptions of the science; for serious discussion of any phase of human activity involves some concept of human nature. But during the formulative stage of economic theory all such concepts lay hidden among the tacit preconceptions upon which inquiry proceeded uncritically. When economists did become definitely conscious of what they had been assuming concerning human nature, it might have been expected that they would apply to psychologists to gain a knowledge of the mind and its modes of operation. On the contrary, they adopted the practice of formulating for themselves "a few principles of human nature," proven by past experience to be serviceable for the ends of economic inquiry. Rather disingenuously, they spoke of these principles as "borrowed from psychology," and for proofs referred their readers to the latter subject at large.

On their side, psychologists have shown a similar lack of interest in what economists were doing. They have had their own technical interests, their own new methods to apply, their own new view-points to develop. Until the recent rise of functional psychology their problems and theories have had little in common with the problems and theories of men engaged in studying phases of social activity. Their work offered little incentive

to consider the services which psychology might render to economics, and the economists meanwhile asked nothing from them. Thus the two subjects went each its own way, and readers who consulted psychological treatises for light upon the "principles of human nature" which economists claimed to have "borrowed" must have been sorely puzzled.

Of late, however, evidence has been accumulating that this divorce between psychology and economics may be annulled. Other social sciences have begun to make effective use of psychology. For example, Graham Wallas has brought back the study of human nature into political science with conspicuous success. Jane Addams has shown how keen an insight into social problems may be gained by sympathetic study of the mental attitude of various classes. Meanwhile an American sociologist—Professor Edward A. Ross—has put together a book called *Social Psychology*. Similar signs of the times are not altogether wanting among economists themselves. Adolph Wagner has said that "in one aspect economics is applied psychology," and Gustav Schmoller has called psychology "the key of all the mental sciences, of economics among the rest."[1] Most significant sign of all, a distinguished psychologist has just published a book expressly for students of the social sciences.[2]

The occasion therefore seems opportune for reviewing once again the relation of economics to psychology in general, and in particular the adequacy of the principles of human nature which economists are wont to posit. Such a review may appropriately begin with an account of the book written by the psychologist who volunteers his services.

I

Mr. McDougall has won high standing among members of his own craft by publishing a series of able experimental papers, and a primer of *Physiological Psychology*. At present he is

[1] Wallas, *Human Nature in Politics*, 1909; Addams, *Democracy and Social Ethics*, 1902; *Newer Ideals of Peace*, 1907; *The Spirit of Youth and the City Streets*, 1909; Ross, *Social Psychology*, 1908; Wagner, *Grundlegung*, 3d ed., Vol. I, p. 15; Schmoller, *Volkswirtschaftslehre*, 4th to 6th eds., Vol. I, p. 107.

[2] William McDougall, *An Introduction to Social Psychology*, 1909.

Wilde Reader in Mental Philosophy in the University of Oxford. Lay readers may therefore feel assured of his competency to speak for modern psychology. His new book seeks to provide those who cultivate the social sciences "with the minimum of psychological doctrine that is an indispensable part of their equipment." It is adapted to the wants of such students by assuming no previous familiarity with psychological treatises, and by dealing with the psychological problem of most interest to them—not the structure, but the functioning, of mind.[3]

Mr. McDougall deems it superfluous to prove his assumption that "some knowledge of the human mind and . . . . its modes of operation" is indispensable to all who cultivate the social sciences. To him the puzzling fact is that psychology, the science of mind, "has not been generally and practically recognized as the essential common foundation on which all the social sciences . . . . must be built up." The blame for this anomalous situation he lays principally upon the deficiencies of psychology itself.

> The department of psychology that is of primary importance for the social sciences is that which deals with the springs of human action, the impulses and motives that sustain mental and bodily activity and regulate conduct; and this, of all the departments of psychology, is the one that has remained in the most backward state, in which the greatest obscurity, vagueness, and confusion still reign. . . . . Hence the workers in each of the social sciences, approaching their special problems in the absence of any established body of psychological truth and being compelled to make certain assumptions about the mind, made them *ad hoc;* and in this way they provided the indispensable minimum of psychological doctrine required by each of them. Many of these assumptions contained sufficient truth to give them a certain plausibility; but they were usually of such a sweeping character as to leave no room for, and to disguise the need for, more accurate and detailed psychological analysis.[4]

Mr. McDougall devotes several pages to showing how this practice of amateur psychologizing has seriously impeded progress in ethics, economics, political science, and jurisprudence. Concerning economics, he says:

> It would be a libel, not altogether devoid of truth, to say that the classical political economy was a tissue of false conclusions drawn from

[3] *Social Psychology,* Preface.

[4] *Ibid.,* pp. 2–3 and 5–6.

false psychological assumptions. . . . . The great assumption of the classical political economy was that man is a reasonable being who always intelligently seeks his own good or is guided in all his activities by enlightened self-interest; and this was usually combined with . . . . psychological hedonism . . . . that is to say, good was identified with pleasure. . . . But man is only a little bit reasonable and to a great extent very unintelligently moved in quite unreasonable ways.[5]

Many of the conclusions of the classical economists, Mr. McDougall holds, were inconsistent with the facts precisely because they were consistent with these false psychological premises. Recent progress in economic doctrine, he adds, certainly consists largely in, or results from, "the recognition of the need for a less inadequate psychological basis." As "an example of the happy effect of the introduction of a less crude psychology," he cites, not any of the recent theoretical treatises, but Mrs. Bosanquet's work on *The Standard of Life*.[6]

Negative criticism of the mistaken or inadequate psychological assumptions upon which the social sciences have been proceeding is, however, but a small part of Mr. McDougall's service. Having cleared the ground, he undertakes new construction. Psychologists, in his opinion, can be of little help to workers in the social sciences, until they abandon "the sterile and narrow conception of their science as the science of consciousness," in favor of a conception of it as "the positive science of the mind in all its aspects and modes of functioning," or better, as "the positive science of conduct." Psychology must rely largely upon objective observation; it must become "an evolutionary natural history of mind;" above all,

it must aim at providing a full and accurate account of those most fundamental elements of our constitution, the innate tendencies to thought and action that constitute the native basis of the mind.[7]

It is this generous conception of the responsibility of psychology toward the social sciences which makes Mr. McDougall's work of such significance for economists. But just because he has done much toward the realization of his ideal, it is im-

[5] *Ibid.*, p. 11.

[6] *Ibid.*, pp. 11–12.

[7] *Ibid.*, p. 15.

possible to give an adequate discussion of the account which follows. Fortunately, the present purpose requires no more than an indication of the lines which Mr. McDougall lays down for the "positive science of conduct."

His chief thesis is "that directly or indirectly the instincts are the prime movers of all human activity."

> The instinctive impulses determine the ends of all activities and supply the driving power by which all mental activities are sustained; and all the complex intellectual apparatus of the most highly developed mind is but a means toward these ends, is but the instrument by which these impulses seek their satisfaction.[8]

Accordingly, Mr. McDougall's science of conduct resolves itself into a study of these prime movers, the instincts. An instinct is

> . . . . an inherited or innate psycho-physical disposition which determines its possessor to perceive, and to pay attention to, objects of a certain class, to experience an emotional excitement of a particular quality upon perceiving such an object, and to act in regard to it in a particular manner, or, at least, to experience an impulse to such action.[9]

Thus every instinct has three parts: an afferent part, corresponding to the cognitive aspect of mental process; a central part, corresponding to the affective aspect; and an efferent part, corresponding to the conative aspect. In man, the afferent and efferent parts of each instinctive disposition undergo great modifications: modifications which mark man's superiority to animals in intelligence and adaptability. But the central part remains substantially unmodified. That is, man's instincts come to be excited by a great variety of cognitive processes, and to result in a still greater variety of bodily movements; but man's instinctive emotional excitements retain their specific character and remain common to all individuals. Hence in studying the instincts, most stress must be laid upon their central parts—that is, upon what Mr. McDougall calls the primary emotions.[10]

The principal instincts of man and their corresponding primary emotions are flight and fear, repulsion and disgust, curiosity and wonder, pugnacity and anger, self-abasement and sub-

[8] *Ibid.*, p. 44. [9] *Ibid.*, p. 29. [10] *Ibid.*, chap. ii.

jection, self-assertion and elation, the paternal instinct and the tender emotion. In addition, there are several instincts of less well-defined emotional tendency: the reproductive, gregarious, acquisitive, and constructive instincts.

Besides the instincts, the mind has certain tendencies which are innate, but many-sided and general in their nature, instead of specific. The most important are suggestion, imitation, sympathy, the tendency to play, and "the tendency of every process to be repeated more readily in virtue of its previous occurrence," that is, the law of habit.

Provided with these innate elements of mind, Mr. McDougall goes on to show how they develop and combine into the complex mental processes of adult life. For the reason given, he keeps the emotional aspect in the foreground. Our "emotional dispositions tend to become organized in systems about the various objects and classes of objects that excite them,"[11] thus giving rise to the sentiments. Several chapters are devoted to showing how the most important sentiments are developed, and demonstrating the rôle they play in controlling activity. Particular stress is laid upon the self-regarding sentiment, because moral conduct, that is, the voluntary control and regulation of the instinctive impulses, "proceeds from the idea of self and from the sentiment, or organized system of emotions and impulses, centered about that idea."[12]

Economists, however, will be less interested in Mr. McDougall's discussion of the sentiments and volition than in his treatment of pleasure and pain. Some economists may be surprised that this psychologist who writes for them does not treat the desire to gain pleasure and avoid pain as the controlling factor in human activity. So far is Mr. McDougall from sharing this most naïve of psychological theories that he does not even think "it necessary to make any elaborate criticism of . . . . hedonism, as that doctrine is now sufficiently exploded."[13] What

[11] *Ibid.*, p. 122.

[12] *Ibid.*, p. 174.

[13] *Ibid.*, p. 17. Several times, however, the writer takes occasion to point out the inadequacy of the hedonistic psychology or of the related utilitarian ethics. Such passages occur on pp. 43, note, 154–56, 190–91, 222, 256, 280, 351.

rôle he does assign to pleasure and pain in guiding activity appears from the following passage:

> Pleasure and pain are not in themselves springs of action, but at the most of undirected movements; they serve rather to modify instinctive processes, pleasure tending to sustain and prolong any mode of action, pain to cut it short; under their prompting and guidance are effected . . . . modifications and adaptations of the instinctive bodily movements.[14]

Unfortunately for his economic readers, Mr. McDougall develops his discussion of pleasure and pain scarcely beyond this bald statement. What little he does say, however, seems to leave them a wide sphere of influence over activity. This influence counts for most in the processes by which habits are developed out of instincts. McDougall includes the tendency of mind toward the formation of habits among the "general innate tendencies," or pseudo-instincts. The specific habits themselves he treats as "acquired modes of activity." Concerning them he is most anxious to show that "habits are formed only in the service of the instincts."[15] It is in this process of standardizing the originally indefinite instinctive activities into highly definite and regular activities of mind and body that pleasure and pain come chiefly into play.[16] The manner of their play is that indicated in the preceding quotation: those instinctive activities which are attended by pleasure are conserved and developed into habits; the opposite kind are atrophied. Therefore in studying human activity we have to deal primarily with habits and instincts. Pleasure and pain do not figure prominently except when we are trying to explain the development of the former out of the latter.

If Mr. McDougall passes somewhat hastily over problems of this character it is that he may keep all his emphasis upon the conclusion which he deems most important for students of the social sciences. That conclusion is the error of conceiving man's activity as primarily rational. In the concluding paragraphs he sums up the matter once again:

[14] *Ibid.*, p. 43. Compare the similar, but slightly fuller, statement on pp. 175–76.

[15] *Ibid.*, pp. 115–16, and 43.

[16] *Ibid.*, p. 179.

Enough perhaps has been said to convince the reader that the life of societies is not merely the sum of the activities of individuals moved by enlightened self-interest, or by intelligent desire for pleasure and aversion from pain; and to show him that the springs of all the complex activities that make up the life of societies must be sought in the instincts and in the other primary tendencies that are common to all men and are deeply rooted in the remote ancestry of the race.[17]

II

The preceding sketch shows that Mr. McDougall's idea of the proper relation between the social sciences and psychology runs counter to the tradition of economics. That tradition has been to have no dealings with psychology beyond borrowing a few principles of human nature to serve as premises. Mr. McDougall holds, on the contrary, that the progress to be made by social scientists "must be dependent upon the fulness and accuracy" of their "knowledge of the human mind and of its modes of operation." To him this assumption seems "so obviously true" as to need no demonstration.[18] A re-examination of the attitude of economists toward psychology is therefore in order.

In *The Theory of Moral Sentiments,* Adam Smith, before writing *The Wealth of Nations,* had dealt elaborately with what would now be regarded as a psychological problem. But, though skilled in such analysis, he saw no reason for setting forth explicitly his view of human nature in the later book. Indeed, he gives the impression of believing that he takes men just as they are, with no more abstraction than is implied in confining attention to one line of activity. But Adam Smith's knowledge of human nature had been gained chiefly in Scotland, and he thought "there was a Scotchman inside every man." Quite naturally, therefore, he took for granted "the uniform, consistent, and uninterrupted effort of every man to better his condition." This psychological premise was the corner-stone of his "obvious and simple system of natural liberty."[19]

[17] *Ibid.,* p. 351.

[18] *Ibid.,* p. 1.

[19] *Wealth of Nations,* book II, chap. iii; book IV, chaps ix and ii.

Malthus' contribution to economic psychology lay in presenting "the passion between the sexes" as an ineradicable human instinct. In his first edition he assumed that this passion "will remain nearly in its present state," and he therefore saw no check to the increase of population save misery and vice.[20] But in his second edition he modified his psychological premise by admitting that the sexual instinct may be brought under the control of man's "reasoning faculties." Hence the psychological possibility of the second check upon population—"moral restraint."[21]

If Adam Smith conceived of man as a calculating animal because he grew up in Scotland, Ricardo formed a like opinion because he grew up on the Stock Exchange. But Ricardo knew Malthus, and with this rationalistic conception of human nature he combined the incongruous belief that the laboring classes most irrationally tend to multiply so fast as to keep wages near the subsistence level. In passages modifying this "iron law of wages," however, he took account not only of the possible subjection of the sexual instinct to foresight, but also of the psychological strength of established habit—the reluctance of wage-earners to trench upon the "food, necessaries, and conveniences" which they have been accustomed to consume.[22]

While Smith, Malthus, and Ricardo were laying the foundations of modern economics with slight conscious attention to psychology, Bentham was formulating his hedonistic theory of conduct. The two lines of interest met in James Mill, the disciple both of Bentham and Ricardo, the author both of an *Analysis of the Human Mind* and an *Elements of Political Economy*. The explicit hedonism of Bentham and the concept of economic activity implicit in Ricardo proved so harmonious that Mill could unite the two without revising either. So readily, indeed, did the notions of human nature which the economists had tacitly adopted from contemporary common-sense admit of a hedonistic interpretation, that this keen psychologist in reducing

[20] *Essay on the Principle of Population,* 1st ed., 1798, chap. i.

[21] *Ibid.,* new ed., chaps. i and ii.

[22] Ricardo, *Political Economy,* chap. v.

Ricardo's teaching to system found no occasion to modify, or even to formulate, the psychological premises of economic theory.

Senior claimed the credit of being first to make such a formulation. Of his four general propositions, "on which the science of political economy rests," two dealt with traits of human nature. Concerning the first—"that every man desires to obtain additional wealth with as little sacrifice as possible"—Senior remarked that "it is in political economy what gravitation is in physics . . . . the ultimate fact beyond which reasoning cannot go, and of which almost every proposition is merely an illustration." The second proposition summed up Malthus' doctrine of population. Patently, Senior got these principles of human nature from the earlier economists, not from psychologists. By way of authentication, he remarked that the first proposition "is a matter of consciousness," the second a "matter of observation."[23]

This advance toward critical self-consciousness among economists was continued in John Stuart Mill's essay "On the Definition of Political Economy and on the Method of Investigation Proper to It." More clearly than Senior, he recognized that political economy was "an abstract science," in the sense that it did "not treat of the whole of man's nature," but was concerned with man "solely as a being who desires to possess wealth, and who is capable of judging of the comparative efficacy of means for obtaining that end." To this "entire abstraction of every other human passion or motive" Mill admitted two classes of exceptions: (1) motives "which may be regarded as perpetually antagonizing principles to the desire of wealth, namely, aversion to labor, and desire of the present enjoyment of costly indulgences;" (2) impulses which interfere with the acquisition of wealth in particular cases, such as "the principle of population." Political economy, then, presupposes

> an arbitrary definition of man, as a being who invariably does that by which he may obtain the greatest amount of necessaries, conveniences, and luxuries, with the smallest quantity of labor and physical self-denial with which they can be obtained in the existing state of knowledge.

[23] Senior, *Political Economy*, 6th ed., pp. 26, 28.

Mill acknowledged that this definition was not prefixed to any treatise, and he regretted the fact. But he regarded himself as merely formulating definitely what had long been the established practice among economists, and he stated clearly why this practice had come tacitly into vogue. Because of the impossibility of arranging experiments, economists had no method of reducing their bewilderingly complex phenomena to a form simple enough for establishing conclusions, save the method of abstraction. It was this end which the concept of the economic man served, even in the hands of writers who used the device unconsciously.

Though the leading English economists had been avowed hedonists, at least since the days of James Mill, a hedonistic interpretation of the desire for wealth and aversion to labor was not openly adopted until the time of Jevons. A mathematician and logician, Jevons felt the need of giving economic theory greater formal precision. Accordingly, he based his discussion of value and distribution upon a "theory of pleasure and pain," derived from Bentham, and by so doing acknowledged hedonism as the official psychology of economics. With admirable consistency he excluded the incongruous instinct of sex from its traditional place among the principles of human nature upon which economics proceeds, and confined his treatment to that "static" realm where his hedonistic tenets could be logically applied.[24]

Since Jevons wrote, economists have followed several divergent lines in their treatment of human nature, thereby producing at least four types of economic theory. Of these types, two closely related to each other are further developments along the straight and narrow path of logic drawn in J. S. Mill's essay and in Jevons' treatise. One represents a reversion to the looser, but more realistic, usages of Ricardo and of Mill's *Principles*. The fourth type results primarily from the slow infiltration of evolutionary ideas. The bearing of Mr. McDougall's assumption that progress in economics depends upon fulness and accuracy of psychological knowledge must be considered in the light of the divergent aims and methods of these several types of theory.

[24] *Theory of Political Economy*, 3d ed., chap. ii, and pp. 265, 269.

Of the first type, Pantaleoni's *Pure Economics* is an admirable specimen.

> Economic science [it begins] consists of the laws of wealth systematically deduced from the hypothesis that men are actuated exclusively by the desire to realize the fullest possible satisfaction of their wants, with the least possible individual sacrifice. . . . . Whether and to what extent the hypothesis of psychological hedonism . . . . is in harmony or at variance with the motives that really determine human action—either generally or more particularly as regards the acquisition and disposal of wealth—is not a question that need be solved before we can decide as to the truth or accuracy of the economic theorems that flow from it. Suppose, indeed, that we refrain from examining the correspondence between the hypothesis of psychological hedonism and actual fact, and that we regard that hypothesis as non-subsistent, or as subsistent in an unknown degree; then provided the economic theorems are rigorously deduced from the premises, they will none the less be incontestable truths, within the limits of the hypothesis.[25]

If McDougall's conclusions are sound, the hedonic premise must be held "non-subsistent." Then theory of Pantaleoni's type presents a close analogy to non-Euclidean geometry. Barring errors of logic, its propositions certainly remain "incontestable truths within the limits of the hypothesis;" but economics becomes "an idle science, though a true one."[26] Still, this result need not disturb the serenity of economic theorists who are content with "idle truth." The geometers of hyper-space are not troubled by mankind's belief that there are but three dimensions. No more need the non-Euclidean economists concern themselves with what psychologists may think.

The non-Euclidean type of theory, however, has few if any rigorous adherents among economists. For economists are not content with a science which is "idle," be it never so "true." Mathematicians may develop the consequences of artificial assumptions from motives of unalloyed curiosity, caring nothing for correspondence between their theorems and factual reality; economists, on the contrary, aim at understanding and explaining certain phenomena of daily experience.

[25] *Pure Economics* (transl. by T. B. Bruce), pp. 3, 9.

[26] *Ibid.*, p. 10.

But, in prosecuting this aim, economists often make conscious use of assumptions contrary to fact—for example, in positing perfect competition. In so doing, their procedure is less like that of the geometers of hyper-space than like that of "rational" physicists. For their interest is not in the purely logical development of their untrue assumptions, as such; but in the use of these assumptions to facilitate comprehension of the complex conditions of reality. Particularly bold is the use of this device for simplifying the psychological data of economics.

It was in this spirit that Jevons based his *Theory of Political Economy* upon "a calculus of pleasure and pain," and described his results as "the mechanics of utility and self-interest."[27] But this type of economic theory is not limited to avowed hedonists. Irving Fisher, though expressly repudiating Bentham's theory of pleasures and pains, has worked out an elaborate treatment of values and prices "in terms of mechanical interaction."[28] Nor is this type of theory confined to mathematical writers; for Professor John B. Clark exemplifies it no less clearly than Jevons and Fisher.[29] "The mechanics of self-interest" is an appropriate name for this whole group of economic writings.

From Mr. McDougall's standpoint the simple psychological premises of this mechanical type of economics are wholly inadequate, if not radically mistaken. But such a verdict involves no refutation of writers like Jevons, Fisher, and Clark. For the mechanics of self-interest, like its prototype, rational mechanics, does not profess to take into account complex reality. Quite the contrary, the certainty and the definiteness of its conclusions rest precisely upon the exclusion of conflicting factors from the imaginary world with which it deals. To treat human nature as McDougall treats it would throw the mechanics of self-interest out of gear. Hence Professor Fisher is abundantly justified in

[27] Third ed., pp. 23 and 21.

[28] "Mathematical Investigations in the Theory of Value and Prices," *Transactions of the Connecticut Academy of Arts and Sciences* (1892), pp. 23, 11, 5, 24. Professor Fisher's rejection of hedonism seems to be merely verbal. He avoids the terminology of Bentham, but works with Bentham's ideas under new labels.

[29] For example, in his *Distribution of Wealth*.

protesting against "the foisting of psychology on [his type of] economics" as "inappropriate and vicious."[30]

But Mr. McDougall's assumption of the indispensability of psychology to all the social sciences is of weight in determining the adequacy of the mechanics of self-interest as an explanation of real economic life. A man who reads books like McDougall's and accepts their conclusions may well become skeptical of the value of economic theory like that provided by Jevons, Fisher and Clark. But this issue is distinct from the issue concerning the indispensability of psychology for economics. Anyone who challenges the worth-whileness of the mechanics of self-interest may find that its exponents can admit everything which McDougall urges without impairing the logical coherence of their system, and without impairing their own confidence in its scientific merits.

While economists of that mental bent which is peculiarly sensitive to the claims of logical order and precision have been perfecting the mechanics of self-interest, their colleagues of a realistic turn have sought to keep economic science in closer touch with economic life. To men of the latter temperament, logical precision smacks more of scholasticism than of science when attained by sacrificing faithfulness to fact. But the economic realists who have been influenced by the classical economists more than by evolutionary concepts, have not known how to dispense with the traditional economic psychology. Accordingly, they have compromised by employing the hedonic calculus in developing their crucial theorems, at the same time preserving an air of reality by sagacious qualifications of the conclusions. Marshall represents this eclectic type of theory at its best.

In the preface to his first edition, Marshall wrote that the attempts "to construct an abstract science with regard to the actions of an 'economic man' . . . . have not been successful." He therefore proposed to exclude the influence of no motives, "the action of which is regular," and he laid stress

[30] Fisher, *op. cit.*, p. 5.

on the fact that there is a continuous gradation from the actions of a "city man," which are based on deliberate and far-reaching calculations, and are executed with vigor and ability, to those of ordinary people who have neither the power nor the will to conduct their affairs in a business-like way.

But the fact remains that the ultimate terms in Marshall's account of economic activity are pleasures and pains, or satisfactions and detriments, as he often calls them. And the skeleton of his theory is put together by treating pleasure and pain as if they were mechanical quantities which can be expressed in mathematical formulas and diagrams. Indeed, in some details he pushes this mechanical method of treatment farther than Jevons—for example, in recognizing consumers' and producers' surpluses. On the other hand, Marshall is seldom content with a mere mechanics of utility. The most characteristic passages in his book are those in which he points out the limitations of his own theorems, limitations which often find their source in traits of human nature not dreamed of in the philosophy of Bentham.

To economists of the eclectic type, Mr. McDougall's insistence upon the necessity of psychological knowledge may be either a cause for misgiving or a ground of hope. Those eclectics who are troubled by the artificiality of their own discussions of market price, or who wish for some method of being true to the facts without being partially false to their theories, may welcome the help of a psychologist who offers an alternative to hedonism. Those whose sensibility to logical order is not so keen as to be offended by the dis-harmonies of eclecticism, are still bound as realists to heed a psychologist who declares that their concept of human nature is unreal.

There remain the economists who have made the evolutionary view-point their own, and tried to see their problems in its perspective. In this type of economic theory, human nature is conceived, not as a ready-made something taken over at the outset, not as a *postulate* whose consequences must be developed, but as itself the chief subject of investigation. When economic activity

is studied in this fashion, great importance is found to attach to institutions, because the latter standardize the behavior of individuals. Institutions are themselves conceived as psychological entities—habits of thought and action prevailing among the communities under observation. The explanations sought are genetic: that is, a current economic habit of thought is accounted for by showing when and how it arose in an earlier cultural situation; what curtailments, developments, new applications it has undergone; how it has modified and been modified by the other institutions with which it has coexisted.

The work of Schmoller and Sombart in Germany, of the Webbs in England, and of Veblen in America—to name only conspicuous examples—aspires to be economic theory of this type. For such work, knowledge of the human mind and its modes of operation is certainly, as Mr. McDougall assumes, an indispensable part of the equipment.

In fine, economists began their neglect of psychology by taking human nature for granted. At first unconsciously, they facilitated the spinning of theories by tacitly positing the uniformity of human nature and its rational character. The one non-rational instinct which Malthus brought in made little trouble because its supposed functioning was so simple and regular. Ricardo's disciples gradually became clearly aware of what their own methods were, and then they began explicitly to approve the neglect of psychology on the ground that economics is necessarily an abstract science. Those among the later writers who have been temperamentally disposed to emphasize the element of formal logic in all science have elaborated the non-Euclidean and mechanical types of theory, which do not profess to treat real men and which therefore have no concern with progress in psychology. Those temperamentally disposed to value insight into facts above logical precision have made the eclectic type of theory, with no small misgivings about their traditional concept of human nature. Finally, the economists who have adopted the evolutionary hypothesis have been trying with qualified success to work out psychological concepts at once

serviceable for economic inquiry and in harmony with modern science.

The reason why Mr. McDougall is so confident of the indispensability of psychological knowledge for all students of the social sciences is that he takes the evolutionary type of social science for granted as the only type in line with the trend of scientific thought. This attitude is natural, for Mr. McDougall would have psychology itself become "an evolutionary natural history of mind."[31] Perhaps a similar attitude will come to prevail among economists in the future; for evolutionary germs seem to be infecting the younger students of the social sciences. But for the present our most conspicuous economists, in America at least, cultivate the types of theory which admit nothing beyond a formal contact with psychology. Logically they may claim exemption from psychological criticism, but such a plea rouses suspicion concerning the value of their theories as an explanation of economic life. For economic theory rests, and has always rested, upon the concept of human nature posited by the theorist. In this respect, writers have differed solely in that their concept has sometimes been tacit, sometimes explicit; sometimes realistic in intent, sometimes purposely artificial. Men who prefer to employ purposely artificial concepts, of course, have nothing to learn from psychology. But such theorists will find the scientific significance of their work rated lower in proportion as the common-sense concept of human nature becomes modified by evolutionary ideas.

WESLEY C. MITCHELL

UNIVERSITY OF CALIFORNIA

[31] *Social Psychology,* p. 15.